



■ Mike Sweeting

Tread carefully

Mike Sweeting, managing director of Acquisitions International, talks about the pitfalls when buying a business.

Most acquirers just deal with what they are being offered, not what's truly available. Some 7% of done deals involved a buyer that was known to be buying and a seller that was known to be selling. In other words, most done deals are off radar and they don't derive from the endless circuit of companies being brokered, meaning there is a huge untapped market.


The trouble is the perceived wisdom that if you make an approach to a company you are going to end up paying more. In fact, on first contact the target may start thinking bigger numbers but, in the real world, if you are in an environment where you have alternative purchases the price doesn't go up it goes down.

The first rule for first time acquirers is you can't buy companies without money. Many are naïve about how they are going to fund the deal and they either think they can do it with tuppence, or they need millions to get anywhere, so they grossly over or underestimate the money. They also underestimate the time that's involved and the risk, and they don't look carefully enough at commercial due diligence issues.

Again it's to do with comfort zones; the buyer's accountant always likes looking at the numbers, but that's not what you are buying the business for. It's for the company's potential. Often nobody looks carefully enough at the trading environment, the customers or the inherent management team properly.

Some 63% of all deals don't deliver what the board was told, according to Harvard Business School. In other words, people think 'it's going to deliver shareholder value and gigantic growth' but in many cases some or all of the criteria was not met. If you think about it, just before the deal everybody thought it was right. No one said 'Let's go out and buy a duffer'. The board talked itself into thinking that the company was appropriate because it was the only one on the desk or only one of five or six supposed 'possibles' in a year.

Directors don't have a good choice or comparison and that's why in the UK every year 60% of acquirers, according to PricewaterhouseCoopers, end up buying nothing – imagine that. Everyone gets dressed up with nowhere to go.

Our big proposition is you need choice. You need to be able to compare and to create a power position in negotiations. Most people just don't do that. They look at one company in February, one in May and one in August and feel that they are on the M&A trail. It's hit and miss, and unsurprising that the statistics bear this out. Many people buy the wrong businesses because it felt good at the time. 

mike@acquisitionsinternational.com